

EXECUTIVE SECRETARIAT

ROUTING SLIP

TO:

		ACTION	INFO	DATE	INITIAL
1	DCI		X		
2	DDCI		X		
3	EXDIR				
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9	Chm/NIC				
10	GC				
11	IG				
12	Compt				
13	D/OLL				
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15	VC/NIC		X		
16	NIO/ECON	X			
17	D/OGI		X		
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SUSPENSE		Date			

Remarks

Executive Secretary

11 Sept. 85

Date

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STAT

THE WHITE HOUSE
WASHINGTON

85- 3449

CABINET AFFAIRS STAFFING MEMORANDUM

Date: 9/10/85 Number: 316983CA Due By: *Sugar*

Subject: Economic Policy Council Meeting -- September 11, 1985

4:00 P.M. -- Roosevelt Room

ALL CABINET MEMBERS	Action	FYI		Action	FYI
Vice President	<input type="checkbox"/>	<input type="checkbox"/>	CEA	<input type="checkbox"/>	<input type="checkbox"/>
State	<input type="checkbox"/>	<input type="checkbox"/>	CEQ	<input type="checkbox"/>	<input type="checkbox"/>
Treasury	<input type="checkbox"/>	<input type="checkbox"/>	OSTP	<input type="checkbox"/>	<input type="checkbox"/>
Defense	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Justice	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Interior	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Agriculture	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Commerce	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Labor	<input type="checkbox"/>	<input type="checkbox"/>	McFarlane	<input type="checkbox"/>	<input type="checkbox"/>
HHS	<input type="checkbox"/>	<input type="checkbox"/>	Svahn	<input type="checkbox"/>	<input type="checkbox"/>
HUD	<input type="checkbox"/>	<input type="checkbox"/>	Chew (For WH Staffing)	<input type="checkbox"/>	<input type="checkbox"/>
Transportation	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Energy	<input type="checkbox"/>	<input type="checkbox"/>	Hicks	<input type="checkbox"/>	<input type="checkbox"/>
Chief of Staff	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Education	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
OMB	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
CIA	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
UN	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
USTR	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
GSA	<input type="checkbox"/>	<input type="checkbox"/>	Executive Secretary for:		
EPA	<input type="checkbox"/>	<input type="checkbox"/>	DPC	<input type="checkbox"/>	<input type="checkbox"/>
NASA	<input type="checkbox"/>	<input type="checkbox"/>	EPC	<input type="checkbox"/>	<input type="checkbox"/>
OPM	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
VA	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
SBA	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>

REMARKS:

There will be an Economic Policy Council meeting on Wednesday, September 11, at 4:00 P.M. in the Roosevelt Room.

The agenda and background paper are attached.

RETURN TO:

☐ Alfred H. Kingon
Cabinet Secretary
456-2823
(Ground Floor, West Wing)

☐ Don Clarey
☐ Rick Davis
☐ Ed Stucky

Associate Director
Office of Cabinet Affairs

THE WHITE HOUSE

WASHINGTON

September 10, 1985

MEMORANDUM FOR THE ECONOMIC POLICY COUNCIL

FROM: EUGENE J. McALLISTER *EM*

SUBJECT: Agenda and Paper for the September 11 Meeting

The agenda and paper for the September 11 meeting of the Economic Policy Council are attached. The meeting is scheduled for 4:00 p.m. in the Roosevelt Room.

The single agenda item is a report from the Working Group on Sugar. USDA must announce by September 13 the level at which the sugar import quota will be set. That level has important, and conflicting, budgetary and national security implications. A paper, prepared by the Working Group, outlining four options for the Council's consideration, is attached.

Attachment

THE WHITE HOUSE

WASHINGTON

ECONOMIC POLICY COUNCIL

September 11, 1985

4:00 p.m.

Roosevelt Room

AGENDA

1. Report of the Working Group on Sugar

THE WHITE HOUSE

WASHINGTON

September 10, 1985

MEMORANDUM FOR THE ECONOMIC POLICY COUNCIL

FROM: THE WORKING GROUP ON SUGAR

SUBJECT: Sugar Quotas

Issue

The Administration must determine by Friday, September 13, a quota level for imports of raw sugar covering FY 1985-86. The decision will have important national security and budgetary implications, and requires that the Administration choose between conflicting goals:

- o Reducing the U.S. base quota from the current level would reduce the foreign exchange earnings of developing countries, particularly in the Caribbean Basin and Central American regions, by approximately \$234 million, raising U.S. national security concerns.
- o Maintaining the base quota at the current level would cause excess sugar in the U.S. market, resulting in as much as \$280 million in Federal budget outlays under the domestic sugar price-support program and potential incremental costs to U.S. consumers.

Background

Since the 1930s, the Federal Government has protected the domestic sugar cane and beet industries from more efficient foreign sugar producers through a system of import tariffs and fees and controls on domestic production, complemented by price-support loans to domestic producers. During the 1970s as world and retail sugar prices were rising, Congress permitted the Federal price support program to expire, but subsequently included in the 1981 Farm Bill a new support program which established a domestic price support level for sugar at 17 cents in 1982 -- slightly above the world price -- with an escalator provision increasing the support level to 18 cents in 1985.

Since 1981, world sugar use and prices have declined substantially. Average world prices for raw sugar fell from approximately 45 cents per pound in 1980 to below three cents per pound in mid-August of 1985. Domestic use of raw sugar also has declined since 1980, reflecting in part, a shift by food processors to less-costly sugar substitutes -- primarily corn sweeteners.

From 1980 to 1985, domestic use of U.S.-produced cane and beet sugars declined by approximately 2.2 million tons -- or over twenty percent. During that same period, domestic use of sugar substitutes increased approximately 2.8 million tons -- or more than 100 percent -- due in large part to the price umbrella provided by our sugar support program. The current domestic price for high fructose corn syrup (HFCS) is approximately 18 to 20 cents per pound, compared to 26 to 28 cents per pound for refined sugar. The total net cost to consumers of the U.S. sugar program is estimated at as much as \$3 billion.

International Implications of U.S. Sugar Quota

U.S. raw sugar imports have dropped precipitously -- from four to five million tons before 1981 to roughly half that level in the current year. This has had a serious impact on strategic nations in the Caribbean Basin Initiative (CBI) and Central American regions which stand to lose \$124 million annually in foreign exchange. Employment also has been severely harmed -- increasing the likelihood of social and political unrest in those regions.

Moreover, the reduced access of CBI countries to the U.S. market has undermined the CBI trade program, one of the President's top foreign policy priorities, by discouraging economic and political development in developing areas. In addition, in the Philippines there is growing a Communist insurgency in sugar growing areas, fed by the existing economic crisis.

Current Dilemma

The sugar program provision of the Agriculture and Food Act of 1981 directs the Federal Government to support U.S. sugar producers at specified price level. It was the intent of Congress to avoid budget outlays due to forfeitures of sugar on loan to the Commodity Credit Corporation (CCC). The Administration has attempted to accomplish this by regulating imports of sugar through country-specific quotas, bringing projected domestic supply into balance with projected domestic use.

The Administration now is faced with a dilemma between competing budgetary and national security concerns:

- o Protected domestic sugar production is fast reaching the level of domestic sugar use.
- o In order to avoid budget outlays to domestic sugar producers, the Administration will have to reduce the base quota level from 2.6 million tons (14 month quota year) to one million tons in FY 1985-86 (10 month quota year).
- o Reducing the quota for FY 1985-86 will cause severe foreign exchange losses and internal economic dislocations in

certain countries of key importance to the U.S. Particularly when combined with previous sugar quota cuts, these losses absorb a very large part of the CBI's trade benefits and put into serious question the Administration's commitment to the program and to the region.

- o Escaping this dilemma through reform of the domestic sugar program does not appear viable this year:
 - Although the Administration's FY 1985 Farm Bill proposal would scale down the sugar program, it still would require that import quotas be imposed in FY 1985-86 to avoid budget outlays.
 - The Senate and House Agriculture Committee already have voted overwhelmingly to continue the domestic sugar price support level at 18 cents per pound with the continuing intent to avoid additional budget outlays, portending the necessity for further reductions in the base quota during outyears.

The immediate decision on a sugar quota level for FY 1985-86 requires a two-step inquiry:

1. Should the Administration maintain the base quota at the current level, causing substantial U.S. budget outlays? Or, instead, should the Administration reduce the base quota, causing harm to developing nations?
2. If the quota is reduced, can the Administration mitigate the resultant economic harm to developing nations?

However, none of the options outlined below can be expected to address the root of the dilemma: the U.S. sugar program. Competing national security and budgetary issues can only be resolved -- in the long run -- through reform of that program.

Options

Using this two-step approach, the Working Group on Sugar has identified four options for the Council's consideration:

Option 1: Reduce the quota level in FY 1985-86 to 1.03 million tons which would balance projected domestic supply with projected domestic use.

This option would continue quota procedures used to date, avoiding excess domestic supplies and potential forfeitures of domestic sugar to the CCC.

Advantages

- o Avoids potential Federal budget outlays during FY 1985-86.

- o Most nearly meets the congressional intent of the 1981 Farm Bill which called for achieving specified price support levels for U.S. sugar producers through nonbudget means.

Disadvantages

- o Further harms the foreign exchange earnings of developing nations, in particular those targeted by the Administration's Caribbean Basin Initiative.
- o Reduces revenues of domestic sugar refiners by as much as \$300 million, and could increase U.S. consumer costs by as much as \$400 million.

Option 2: Maintain the quota for FY 1985-86 at the current level of 2.55 million tons.

Because domestic sugar production is rising while domestic use is declining, this option would cause excess supplies in the U.S. market.

Advantages

- o Permits developing nations to maintain foreign exchange earnings gained from sugar exports to the U.S. market.
- o Permits domestic sugar refiners to maintain current earnings, and could save U.S. consumers substantial incremental costs for sweetened products.

Disadvantages

- o Causes domestic producers to forfeit as much as \$280 million in domestic sugar held in loan by the CCC.
- o Would be viewed by Congress as contrary to the intent of the 1981 Farm Bill.

State
Option 3: Maintain the quotas for FY 1985/86 at the current level of 2.6 million tons; seek establishment of a "sugar adjustment fund" to mitigate the impact of a lowered quota; lower the quota to one million tons simultaneously with implementing the sugar adjustment fund.

This option would establish a fund to offset 75 percent of the export earnings losses of CBI designated countries and other developing nations with per capita incomes of less than \$1500, resulting from the lower U.S. sugar import quota. Grants from this fund would be conditioned on an eligible nation's

development of a concrete plan for reducing its dependence on sugar exports. Assuming a 1.03 million ton quota for 1985-86, the value of the fund would be \$175 million. Outyear values would reflect future decisions on quota levels, and would cease when U.S. quotas are no more restrictive than at present.

The Administration could propose the plan as an amendment to the 1985 Farm Bill, but Congress likely would refer it to a foreign aid committee.

Advantages

- o Complements the U.S. CBI program, giving short-term trade assistance to strategic developing nations.
- o Unlikely to be opposed by Agriculture interests in Congress.

Disadvantages

- o Involves U.S. government in the agri-markets of developing countries in asking those nations to make market adjustments that the U.S. sugar industry refuses to make, causing potentially long-term Federal budget-commitments abroad.
- o Sets precedent for voluntarily compensating trading partners for restrictions on access to U.S. markets, and is contrary to the intent of the Caribbean Basin trade initiative.

Option 4: Reduce the quota levels for FY 1985-86 to 1.03 million tons, balancing projected domestic supply with projected domestic use, but mitigate the impact on developing nations by announcing that 1.5 million tons may be imported at the world price for refinement in the U.S. as fructose syrup.

This option is the so-called Savannah proposal supported by CBI nations. It would exempt a volume of sugar from the quota system provided it is refined as a sugar substitute in competition with domestic corn products. Choosing this option would require amending existing tariff schedules by presidential proclamation.

Advantages

- o Partially maintains the export earnings of CBI nations which export sugar to the U.S. market.
- o Maintains the earnings of U.S. sugar refineries while promoting competition with the corn sweetener market,

potentially resulting in reduced prices for sweetened products.

Disadvantages

- o Strongly opposed by the Senate leadership and other congressional agriculture interests because sugar imported outside the quota system would compete directly with domestic corn in the U.S. sugar-substitute market.
- o Causes displacement of up to 300 million bushels of domestic corn. Preventing cheating by U.S. importers would require substantial Federal spending.